

Impact of Globalization on Poverty and Employment:

Transmission Channels and Policy Debate

Presentation Based on UNU-WIDER Program of Research on “The Impact of
Globalization on the World’s Poor”

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What is Globalization?

What are its Manifestations?

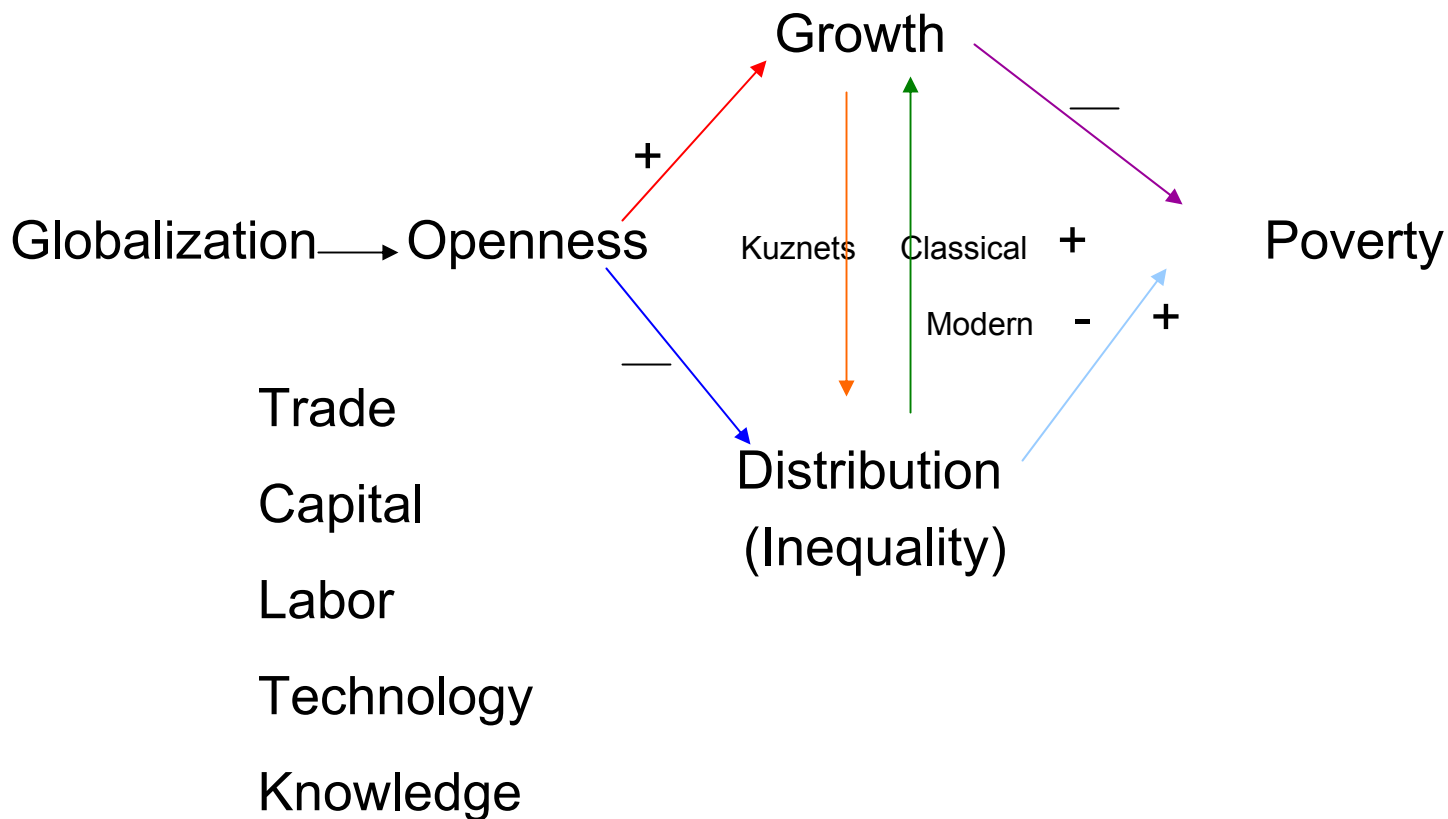
Greater Integration within the World Economy via
Increased Openness to:

- International Trade
- Cross-border Capital and Labor Movements
- Cross-border Flow of Technology
- Cross-border Flow of Information, Knowledge, and Ideas (Internet Super-Highway)

Introduction (continued)

- Questions frequently asked:
 - Q?: Whether the actual distribution of gains is fair ? Whether the poor benefit less than proportionately from globalization – and under some circumstances might actually be hurt by it ?
 - Q?: The downside of globalization – Who bears most of the costs? Are they borne disproportionately by the developing world and the poor (**often unskilled workers**) who are more vulnerable ?

The Globalization-Openness-Growth-Distribution (Inequality)-Poverty Nexus



Search for Pro-Poor Growth or Distribution-neutral Growth

The Growth to Poverty Link

The *Pattern of Economic Growth* and Development, rather than the *Rate of Growth* per se, has Significant Effects on a Country's Income Distribution and Poverty Dynamics.

- ▶ Openness is a Necessary but not a Sufficient Condition for Successful Development.
- ▶ Fundamental Role of Agriculture in Structural Transformation early in Development Process.

Additional Channels through which Globalization Impacts the Poor

- Growth is the Main Channel (filter) through which Globalization Affects Income Inequality and Poverty
- Other Channels through which Globalization can Produce Winners and Losers:
 - ❑ Changes in Relative Factor and Good Prices;
 - ❑ Differential Cross-border Factor (Capital and Labor) Mobility;
 - ❑ The Nature of Technical Progress and Technological Diffusion Process

Channel 2: Changes in Relative Product and Factor Prices

Changes in Relative Product Price Induce Changes in Relative Factor Prices with the Advent of Globalization (the Stolper-Samuelson effects):

- ▶ *Theoretical* Prediction: **Unskilled Labor** is a Winner in Low income Countries and a Loser in Developed Countries
- ▶ *Empirical* Evidence: **Wage Gaps** between **Skilled and Unskilled Labor** have been **Increasing** in many Developing Countries (in particular, in Latin America and Africa)

Channel 2: Changes in Relative Product and Factor Prices (Continued)

– *Explanations Why Theoretical Prediction Doesn't Hold:*

- ❑ **Increasing Wage Gap** in LA because of Entry into World Economy of Low-Income Asian Economies with Abundant Reserves of Unskilled Labor such as China and India into the World Markets -Wood (1997,1999)
- ❑ The Nature of **New Technology is** heavily Biased in Favor of Skilled and Educated Labor- Wood and Kanbur and Culpepper (2002)

Channel 3: Factor Mobility

- **Perverse** Factor Movements (Culpepper,2002) :
 - Capital and **Skilled Labor** do not Migrate to Poor Countries as much as among Developed Countries;
 - There is a Tendency for **Skilled Labor** to **Migrate from Developing Countries to Developed Countries** (e.g. African Doctors and Nurses);
 - **Wage Equalization' Does not take Place through Labor Migration (as was the Case in the Previous Globalization Era)**

Channel 4: Technical Progress and Technological Diffusion

- The Nature of New Technology is Heavily Biased in Favor of Skilled and Educated Labor
 - Technical Change Emanates from R&D activities in the Developed Countries in Response to Local Developed Country conditions (Labor-Saving and Skill-biased);
 - New Technology is Complementary to Capital and Skilled Labor, while they are Substitute for Unskilled Labor;
 - Technical Change will Increase Inequalities Universally both in Developed and Developing Countries;
 - Increasing Privatisation of Research e.g. in Bio-technology may make it less Affordable to the Poor;

Questions

- Is the Concept of Appropriate Technology Dead?
- Can a Technology be Labor-intensive and yet Efficient and Competitive in World Markets?
- How can Research in Appropriate Technologies be Encouraged?

Policy Issues

- Globalization should not be Viewed as a Reliable Substitute for a Domestic Development Strategy
- One of the Critical Issues Facing Policy-makers in Low-Income Developing Countries in Formulating their **Strategic Position** towards the Globalization Process is how to Evolve their Comparative Advantages over Time in their Abundant Factor (**Unskilled Labor**)
- Governments of Developing Countries Should Consciously Engage in Building Institutional Capacities for Successful Integration.
- Three Types of Institutions Come to Mind: 1) Design and Implement an Educational and Vocational Training System Appropriate and Responsive to the Country's Specific Needs; 2) Reduce Labor Market Fragmentation and Increase Flexibility; 3) Safety Nets to Reduce Vulnerability of the Poor to Shocks and the Structural Transformation